

THE STURGIS HOUSING COMMISSION OF THE
CITY OF STURGIS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

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Michigan Department of Treasury
496 (2-04)**Auditing Procedures Report**

Issued under P.A. 2 of 1968, as amended

LOCAL AUDIT & FINANCE DIV.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name STURGIS CITY HOUSING COMMISSION		ST JOSEPH
Audit Date 9-30-04	Opinion Date 1-18-05	Date Accountant Report Submitted to State 5-2-05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the Bulletin for the Audits of Local Units of Government in Michigan as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|------------------------------|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Locey CPA Firm			
Street Address 67036 N M66		City STURGIS	State MI
Accountant Signature <i>Paul Locey CPA</i>		ZIP 49051	Date

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Board of Commissions
Sturgis Housing Commission of the City of Sturgis
Sturgis, Michigan

Management's Discussion and Analysis

As financial management of the Sturgis Housing Commission of the City of Sturgis, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended September 30, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

Basic financial statements. The basic financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, results in increased net assets, which indicates an improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Net assets may serve, over time, as a useful indicator of financial position. In the case of the Commission, assets exceeded liabilities by \$845,798 at the close of the most recent fiscal year. The unrestricted net assets were \$171,988.

By far, the largest portion of the Commission's net assets reflects its investment in capital assets and cash investments.

Sturgis Housing Commission of the City of Sturgis

	<u>2004</u>
Current and other assets	\$ 332,377
Capital assets	<u>673,810</u>
Total assets	\$ 1,006,187
Current liabilities	<u>\$ 160,389</u>
Total liabilities	\$ 160,389
Net assets:	
Restricted	\$ 673,810
Unrestricted	<u>171,988</u>
Total net assets	<u>\$ 845,798</u>

Sturgis Housing Commission of the City of Sturgis Changes in Net Assets

	<u>2004</u>
Operating revenues	\$ 156,018
Operating expenses	<u>(337,952)</u>
Income from operations	\$ (181,934)
Net nonoperating revenues	
Grants	<u>\$ 95,781</u>
Net nonoperating revenues	<u>\$ 95,781</u>
Change in net assets	\$ (86,153)
Net assets, beginning of year	<u>931,951</u>
Net assets, end of year	<u>\$ 845,798</u>

Significant Events: A capital Improvement Program Grant was received for \$22,579, covered various improvement projects.

Cash Flows: Net cash provided (used) by operating activities increased by \$(23,613). Net cash used in capital and related financing activities decreased by \$36,781, primarily due to capital acquisition and construction costs.

Capital Asset and Debt Administration

Capital Assets: The Commission's investment in capital assets amounts to \$673,810 net of accumulated depreciation, as of September 30, 2004. Capital assets include buildings, equipment, and furniture.

Requests for Information

This financial report is designed to provide a general overview of the commission's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Chief Financial Officer, 128 S. Nottawa, Sturgis, Michigan 49091.

A handwritten signature in black ink, appearing to read 'D. Locey', is positioned above the printed name.

DAVID F. LOCEY, C.P.A., P.C.

David F. Locey, C.P.A., P.C.

P.O. Box 7037
67036 N. M-66
Sturgis, Michigan 49091

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Independent Auditor's Report

Board of Commissions
Sturgis Housing Commission of the City of Sturgis
Sturgis, Michigan

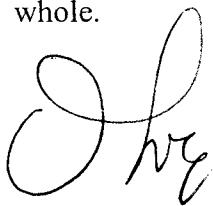
We have audited the accompanying statements of the housing authority's activities of Sturgis Housing Commission of the City of Sturgis, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the Sturgis Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sturgis Housing Commission of the City of Sturgis, Michigan, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the housing authority activities of the Sturgis Housing Commission of the City of Sturgis, Michigan, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

The management's discussion and analysis and budgetary comparison information, are not a required part of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements of Sturgis Housing Commission of the City of Sturgis, Michigan basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read 'D. Locey', is positioned above the printed name.

DAVID F. LOCEY, C.P.A., P.C.

January 18, 2005

THE STURGIS HOUSING COMMISSION OF THE CITY OF STURGIS

STURGIS, MICHIGAN

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

ASSETS	Capital Project	Housing	Total
Cash	\$0	\$265,076	\$265,076
Material inventory	0	961	961
Interfund receivable	63,588	0	63,588
Accounts receivable	0	2,752	2,752
Total current assets	63,588	268,789	332,377
Land, structures and equipment			
Less depreciation of \$1,209,524	22,579	651,231	673,810
Total property, plant, and equipment	22,579	651,231	673,810
Total assets	<u>\$86,167</u>	<u>\$920,020</u>	<u>\$1,006,187</u>
LIABILITIES			
Deferred revenue	\$60,553	\$0	\$60,553
Accounts payable - trade	3,035	17,492	20,527
Security deposits	0	7,688	7,688
Accrued payment - lieu of tax	0	8,033	8,033
Interfund payable	0	63,588	63,588
Total liabilities	63,588	96,801	160,389
Net Assets			
Unrestricted	0	171,988	171,988
Invested in Capital Assets	22,579	651,231	673,810
Total net assets	<u>\$22,579</u>	<u>\$823,219</u>	<u>\$845,798</u>

Notes to the Financial Statements are an integral part of this statement.

THE STURGIS HOUSING COMMISSION OF THE CITY OF STURGIS
STURGIS, MICHIGAN

STATEMENT OF ACTIVITIES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2004

	<u>Capital Project</u>	<u>Housing</u>	<u>Total</u>
ENTITY EXPENSES			
Administration	\$0	\$86,251	\$86,251
Utilities	0	70,023	70,023
Operation, repairs, structures, and improvements	0	109,107	109,107
General expense	0	19,272	19,272
Depreciation	0	53,299	53,299
Total entity expense	<u>0</u>	<u>337,952</u>	<u>337,952</u>
ENTITY REVENUES			
HUD Subsidy - grant	22,579	73,202	95,781
Dwelling rent	0	150,351	150,351
Other	0	5,667	5,667
Total entity revenues	<u>22,579</u>	<u>229,220</u>	<u>251,799</u>
Change in net assets	<u>22,579</u>	<u>(108,732)</u>	<u>(86,153)</u>
Equity transfer	(83,588)	83,588	0
Beginning of year	<u>83,588</u>	<u>848,363</u>	<u>931,951</u>
End of year	<u>\$22,579</u>	<u>\$823,219</u>	<u>\$845,798</u>

Notes to the Financial Statements are an integral part of this statement.

THE STURGIS HOUSING COMMISSION OF THE CITY OF STURGIS

STURGIS, MICHIGAN

STATEMENT OF CASH FLOW
GENERAL CASH BALANCE
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2004

Cash flows from operating activities:	
Rental receipts	\$150,351
Interest receipts	1,727
Other receipts	2,765
HUD Grants	22,579
CFD-2003 drawdown	63,588
Operating subsidy	<u>73,202</u>
Total inflows	314,212
Administrative	(86,251)
Utilities	(70,023)
Operations, repairs, structure, and improvements	(109,107)
Other expenses	<u>(25,218)</u>
Total outflows	<u>(290,599)</u>
Net cash provided by (used in) operating activities	23,613
Cash flows from investing activities:	
Security deposits	7,688
Fixed assets additions	<u>(44,469)</u>
Net cash provided by (used in) investing activities	(36,781)
Net increase (decrease) in cash and cash equivalents	<u>(13,168)</u>
Cash and cash equivalents:	
Beginning of period	<u>278,244</u>
End of period	<u>\$265,076</u>

Notes to the Financial Statements are an integral part of this statement.

THE STURGIS HOUSING COMMISSION OF THE CITY OF STURGIS

STURGIS, MICHIGAN

BUDGETARY COMPARISON REPORT

	<u>Actual</u>	<u>Budget</u>
ENTITY EXPENSE		
Administration	\$86,251	\$97,730
Utilities	70,023	70,020
Operation, repairs, structures, and improvements	109,107	103,290
General expense	19,272	19,270
Depreciation	53,299	0 *
Total entity expense	<u>337,952</u>	<u>290,310</u>
ENTITY REVENUES		
HUD Subsidy - grant	95,781	95,781
Dwelling rent	150,351	150,350
Other	5,667	5,670
Total entity revenues	251,799	251,801
Excess revenue over (under)expenses	<u>(\$86,153)</u>	<u>(\$38,509)</u>

* Depreciation Expense not Budgeted

The Sturgis Housing Commission of the City of Sturgis
Notes to Financial Statements
For the Twelve Months Ended September 30, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The Sturgis Housing Commission is located in the City of Sturgis and provides services to low income senior citizens for housing, on a rental subsidized basis.

PRINCIPLES USED IN DETERMINING THE SCOPE OF ENTITY FOR FINANCIAL REPORTING PURPOSES

REPORTING ENTITY - In accordance with generally accepted accounting principles and Governmental Accounting Standards Board Statement #14 "The Financial Reporting Entity". The accompanying financial statements present the housing authority and component units (none) over which the housing authority exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationship.

Criteria - primary vs. component unit (none)
Oversight Responsibilities

- A. Financial interdependency - responsibility for financial deficits or entitlement to surpluses
- B. Selection of governing authority
- C. Designation of management
- D. Ability to significantly influence operations
- E. Accountability for fiscal matter

ENTITY WIDE FINANCIAL STATEMENTS

General operation included, no fiduciary funds.

BASIS OF ACCOUNTING - MEASUREMENT FOCUS

Governmental funds utilize the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both available and measurable. Rents and miscellaneous revenues are recorded as revenues when received in cash. Investment earnings are recorded when earned (when they are both measurable and available).

Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Two funds are utilized:

Housing
Capital Improvement Fund

BUDGETARY DATA

BUDGETARY ACCOUNTING - Formal budgetary accounting is employed as a management control for all funds of the housing authority. Annual operating budgets are adopted each year through passage of an annual budget and amended as required.

All unencumbered budget appropriations lapse at the end of each fiscal year.

CAPITALIZATION POLICY

Land, structures, and equipment acquired is capitalized and stated at cost.

Depreciation of exhaustible fixed assets used by the housing authority is charged as an expense against operations, and accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation.

CASH AND CASH EQUIVALENTS

Deposits are carried at cost.

The Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the housing authorities cash deposits are as follows:

Primary Government	
<u>Deposits</u>	<u>Bank Balance</u>
Insured (FDIC)	\$100,000
Uninsured	<u>165,076</u>
Total Deposits	<u><u>\$265,076</u></u>

The Sturgis Housing Commission of the City of Sturgis
Notes to Financial Statements - Continued
For the Twelve Months Ended September 30, 2004

TYPE OF TRANSACTIONS

Major source of revenue is rental from tenants, and subsidies from HUD.

CAPITAL ASSETS

Beginning Balance	\$1,836,286
Increase	47,048
Decrease	<u>0</u>
Ending Balance	1,883,334
Less Accumulated Depreciation	<u>(1,209,524)</u>
Net Capital Assets	\$673,810

LONG-TERM LIABILITIES

None.

INVENTORY

Valued at historical cost.

RESTRICTED NET ASSETS

Restricted - represents investments in capital assets.

Unrestricted - Balance of net assets, usage unrestricted in future.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissions
Sturgis Housing Commission of the City of Sturgis
Sturgis, Michigan Board of Commissions

We have audited the financial statements of the Sturgis Housing Commission of the City of Sturgis, Michigan, as of and for the year ended September 30, 2004, and have issued our report thereon dated January 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Sturgis Housing Commission of the City of Sturgis, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sturgis Housing Commission of the City of Sturgis, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be

material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Board of Commissions, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'D. Locey', is positioned above the printed name.

David F. Locey, CPA
Sturgis, Michigan
January 18, 2005